BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF A CHANGE IN ITS GAS SALES SERVICE RATES ("GSR") TO BE EFFECTIVE NOVEMBER 1, 2018 (FILED AUGUST 31, 2018)	**)))))))**	**PSC DOCKET NO. 18-1056**

DIRECT TESTIMONY OF

JEROME D. MIERZWA

ON BEHALF OF THE

STAFF OF THE DELAWARE PUBLIC SERVICE COMMISSION AND THE DIVISION OF THE PUBLIC ADVOCATE

February 27, 2019

EXETER
ASSOCIATES, INC.
10480 Little Patuxent Parkway, Suite 300
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CHESAPEAKE UTILITIES CORPORATION
DOCKET NO. 18-1056
DIRECT TESTIMONY OF JEROME D. MIERZWA

TABLE OF CONTENTS

I. STATEMENT OF QUALIFICATIONS

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Jerome D. Mierzwa. I am a Principal and Vice President of Exeter Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from Canisius College in Buffalo, New York in 1981 with a Bachelor of Science Degree in Marketing. In 1985, I received a Master's Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation ("NFG Distribution") as a Management Trainee in the Research and Statistical Services Department ("RSS"). I was promoted to Supervisor RSS in January 1987. While employed with NFG Distribution, I conducted various financial and statistical analyses related to the company's market research activity and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation's ("NFG Supply") rate department where my responsibilities included utility cost of service and rate design analysis, expense and revenue requirement forecasting, and activities related to federal regulation. I was also responsible for preparing NFG Supply's Federal Energy Regulatory Commission ("FERC") Purchase Gas Adjustment ("PGA") filings and developing interstate pipeline and spot market supply gas price projections. These forecasts were utilized for internal planning purposes as well as in NFG Distribution's state purchased gas cost review proceedings.

In April 1990, I accepted a position as a Utility Analyst with Exeter. In December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996, I became a Principal of Exeter. Since joining Exeter, my assignments have included evaluating the gas purchasing practices and policies of natural gas utilities, utility class cost of service and rate design analysis, sales and rate forecasting, performance-based incentive regulation, revenue requirement analysis, the unbundling of utility services, and the evaluation of customer choice natural gas transportation programs.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS ON UTILITY RATES?

A. Yes. I have provided testimony on more than 300 occasions in proceedings before the FERC, utility regulatory commissions in Arkansas, Georgia, Illinois, Indiana, Louisiana, Maine, Massachusetts, Montana, Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island, Texas, Utah, and Virginia, as well as before the Delaware Public Service Commission ("Commission").

II. SCOPE AND PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. Exeter was retained by the Staff of the Delaware Public Service Commission ("Staff") and the Division of the Public Advocate (the "DPA") to review the Gas Sales Service Rate ("GSR") Application of Chesapeake Utilities Corporation ("Chesapeake" or "the Company"), and evaluate the reasonableness of the Company's gas procurement practices and policies. The purpose of my testimony is to present findings and recommendations to the Commission concerning Chesapeake's GSR Application and the Company's ongoing gas procurement practices and policies. Also testifying in this proceeding on behalf of Staff is Ms. Connie McDowell. Ms. McDowell summarizes the Company's GSR Application and proposed rates, and also addresses prior GSR settlement agreements.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN CHESAPEAKE'S GSR PROCEEDINGS?

A. Yes. I have testified in each of Chesapeake's annual GSR proceedings since 2012.

Q. IN PERFORMING YOUR REVIEW AND ANALYSIS, WHAT DATA SOURCES DID YOU UTILIZE?

A. I reviewed the Company's Application, responses to discovery requests, and the Company's 2018 Long-Term Gas Supply and Demand Strategic Plan. I also reviewed information provided in other Company proceedings before the Commission.

Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes, I prepared this testimony.

III. RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. My recommendations are as follows:

- Chesapeake recently acquired incremental interstate pipeline capacity under the 2017 Eastern Shore Natural Gas ("ESNG") Expansion Project to the meet growing market demands of both its GSR sales and transportation customers. The costs associated with the incremental expansion capacity arrangements are higher than the costs associated with Chesapeake's existing ESNG capacity arrangements. In its GSR Application, Chesapeake has assigned the costs associated with its expansion capacity arrangements entirely to Chesapeake's GSR sales customers. This is unreasonable. A portion of Chesapeake's higher costs ESNG expansion capacity arrangements should be assigned to transportation customers; and

- Several provisions of the settlement approved in Chesapeake's 2017 GSR proceeding in Docket No. 17-1021 should be extended for at least an additional year, and preferably indefinitely.

IV. 2017 ESNG EXPANSION CAPACITY

Q. BRIEFLY DESCRIBE CHESAPEAKE'S INTERSTATE PIPELINE TRANSPORTATION, OR DELIVERY, ARRANGEMENTS.

A. Chesapeake is directly interconnected with only one interstate pipeline—ESNG. Therefore, all of Chesapeake's gas supplies are physically delivered to the Company by ESNG. Chesapeake reserves capacity on three interstate pipelines upstream of ESNG that deliver gas to ESNG. These three pipelines are Transcontinental Gas Pipe Line Corporation ("Transco"), Columbia Gas Transmission Corporation ("TCO"), and Texas Eastern Transmission Company ("Tetco"). Chesapeake's arrangements with Transco, TCO, and Tetco are referred to as "upstream capacity arrangements."

Q. HOW DOES A GAS UTILITY LIKE CHESAPEAKE TYPICALLY DETERMINE THE AMOUNT OF PIPELINE CAPACITY THAT IT SHOULD RESERVE OR MAINTAIN?

A. A gas utility typically reserves pipeline capacity sufficient to meet the design day demands of its firm retail sales customers. The design day is an extremely cold day that a gas utility selects and utilizes for capacity planning purposes. The design day utilized by Chesapeake for capacity planning purposes is a day with an average temperature of 5˚ F, or 60 heating degree days ("HDDs").

It is also common for gas utilities to reserve pipeline capacity to meet the design day demands of firm transportation customers, or the balancing requirements of their firm transportation customers. If pipeline capacity is reserved to serve firm transportation customers, mechanisms are typically in place to recover the costs associated with this capacity from firm transportation customers.

Q. DOES CHESAPEAKE CURRENTLY RESERVE PIPELINE CAPACITY TO MEET THE REQUIREMENTS OF ITS FIRM TRANSPORTATION CUSTOMERS?

A. Yes. Chesapeake currently reserves ESNG pipeline capacity sufficient to meet the design day demands of its firm retail sales and firm transportation customers. The costs associated with the ESNG capacity reserved by Chesapeake to serve firm transportation customers are partially recovered through the direct release and assignment of ESNG capacity to firm transportation customers. The quantity of ESNG capacity assigned to each firm transportation customer is equal to the customer's highest daily contract quantity ("DCQ") during the most recent three-year period. The DCQ is the daily quantity of gas a firm transportation customer is required to have delivered on its behalf to Chesapeake during the month, and is equal to the anticipated average daily usage of the customer during that month.

Chesapeake also reserves ESNG capacity to provide balancing service to transportation customers which accommodates daily differences between a customer's DCQ and the customer's actual daily usage, including meeting the design day demands of the customer that exceed the customer's DCQ. Chesapeake's costs associated with providing balancing service to firm transportation customers are recovered through balancing charges. These balancing charges are intended to recover the costs associated with the ESNG capacity reserved by Chesapeake to serve firm transportation customers that are not recovered through the direct assignment of ESNG capacity.

Upstream pipeline capacity is not directly assigned to Chesapeake's firm transportation customers. Firm transportation customers acquire their own upstream pipeline capacity to deliver their DCQ to Chesapeake. However, Chesapeake utilizes its upstream pipeline capacity resources to provide balancing service to firm transportation customers. The costs associated with the upstream pipeline capacity resources utilized to provide balancing service are also recovered through balancing charges.

Q. PLEASE SUMMARIZE THE ESNG CAPACITY RESOURCES CURRENTLY MAINTAINED BY CHESAPEAKE TO MEET THE DESIGN DAY DEMANDS OF ITS GSR SALES AND CUSTOMERS AND THE DESIGN DAY DEMANDS AND BALANCING REQUIREMENTS OF ITS FIRM TRANSPORTATION CUSTOMERS.

A. ESNG's current rate design structure consists of two receipt zones (Zones R1 and R2) where gas is received from the three interstate pipelines upstream of ESNG, and two delivery zones (Zones D1 and D2) where gas is delivered to customers of ESNG, including Chesapeake. Chesapeake's maximum capacity entitlements by ESNG receipt and delivery zone, as shown in Schedule C.2 of the Company's Application, are summarized in Table 1.

Table 1.
Summary of Chesapeake ESNG
Firm Transportation Capacity Entitlements
(Dth/day)

Receipt Zones	
Zone 1	35,150
Zone 2[a]	72,029
Delivery Zones	
Zone 1[a]	16,837
Zone 2[a]	55,192
Delivery Total	**72,029**
2017 Expansion Capacity	16,500
Total Capacity	**88,529**

[a] Reflect both long- and short-term firm transportation contracts.

Under ESNG's current rate structure, Zone R1 deliveries flow through Zone R2 and, therefore, Chesapeake's ESNG firm transportation contracts provide for the delivery of 72,029 Dth/day to ESNG's delivery zones. The 2017 expansion capacity provides for the delivery of gas from Zone R1 to Zone D2. Of the total 16,500 Dth/day of 2017 expansion capacity, 10,000 Dth/day was placed in service in July 2018 and the remaining 6,500 Dth/day was placed in service in December 2018.

Q. WHAT IS YOUR CONCERN WITH CHESAPEAKE'S ASSIGNMENT OF ITS ESNG CAPACITY COSTS TO GSR SALES AND TRANSPORTATION CUSTOMERS?

A. Chesapeake pays ESNG's standard tariff rates under its non-expansion capacity transportation arrangements. Under the ESNG expansion capacity transportation arrangements, however, Chesapeake pays higher incremental FERC-approved rates. The charges Chesapeake is proposing to assess transportation customers for released ESNG capacity and the ESNG capacity costs included in the charges for balancing service are based only on the costs associated with non-expansion capacity. This is unreasonable, because it is the growing market demands of *both* GSR sales and transportation customers that required Chesapeake to acquire the higher cost incremental expansion capacity. For example, as shown on Schedule I of the Company's Application, the design day demands of transportation customers are projected to total 19,746 Dth by October 2019. In Chesapeake's GSR application filed two years ago in Docket No. 16-0908, the projected design day demands of Chesapeake's transportation customers totaled 17,775 Dth as of November 2016.

Q. HOW DO THE COSTS OF CHESAPEAKE'S NON-EXPANSION AND EXPANSION ESNG FIRM TRANSPORTATION CAPACITY COMPARE?

A. As shown on Schedule JDM-1, based on the information provided in Schedule C.2 of the Company's Application, the average cost of non-expansion ESNG capacity is $20.87 Dth/day. The cost of the ESNG expansion capacity is $26.04 Dth/day. As a result of adding the incremental expansion capacity, Chesapeake's average cost of capacity increased form $20.87 Dth/day to $21.84 Dth/day, or by 4.6 percent.

Q. WHAT DO YOU RECOMMEND CONCERNING THE ASSIGNMENT OF EXPANSION CAPACITY COSTS TO TRANSPORTATION CUSTOMERS?

A. I recommend that the Commission direct Chesapeake to increase the rates charged to firm transportation customers for released ESNG capacity by 4.6 percent, and to direct a similar increase in the charges for balancing service.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. As shown on Schedule JDM-2, on a going forward basis, the estimated annual impact of my recommendation would be an increase of $466,000 in the costs assigned to transportation customers and a corresponding decrease in the costs assigned to GSR sales customers. The resulting changes in the rates assessed for released capacity and for balancing service are also identified on Schedule JDM-2. While this impact is not significant in magnitude, Chesapeake's 2018 Long-Term Gas Supply and Demand Strategies Plan indicates that the Company will be acquiring additional incremental ESNG capacity on an annual basis. The rates for these incremental acquisitions are likely to be higher than ESNG's standard rates. Therefore, the impact on transportation customers of applying my recommendation is likely to increase over time.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE GSR RATES PROPOSED BY CHESAPEAKE IN ITS APPLICATION?

A. No, I am not. My recommended changes to the charges for released capacity and balancing service cannot be implemented until approved by the Commission. Based on the procedural schedule established in this proceeding, my recommended changes could not be put into effect any earlier than June 2019, and would only be in effect for five months before Chesapeake's GSR is revised in its next Application. As such, the impact of my recommendation on GSR costs would be less than the estimated annual impact of $466,000. Therefore, I recommend that the additional revenues collected from firm transportation customers as a result of my recommendation be reflected in Chesapeake's over/under collection balance until the Company's next GSR Application.

VI. <u>DOCKET NO. 17-1021 SETTLEMENT PROVISIONS</u>

Q. ARE THERE PROVISIONS OF THE SETTLEMENT AGREEMENT APPROVED IN DOCKET NO. 17-1021 THAT YOU ARE RECOMMENDING BE CONTINUED IN THIS PROCEEDING?

A. Yes. I believe several provisions of the Settlement in Docket No. 17-1021 should be extended for at least an additional year, and preferably indefinitely:

> **Item 1.** The Company should continue to monitor the level of its over/under collection balance to determine whether a change in the methodology used to calculate

its GSR rate is necessary. The Company should hold quarterly discussions with Staff and the DPA, at their request, for the purpose of review the Company's over/under collection balances, hedging program, and other areas of interest to the Settling Parties, such as what measure could be implemented in the Company's annual GSR filing to reduce the volatility of GSR rates caused by the amortization of gas cost over-and-under collections.

Item 2. The Company should continue to utilize its annual Supply Plan as a mechanism by which to notify the Settling Parties of the need for all new capacity additions. When the Company needs to acquire capacity that was not previously identified in its most recent Supply Plan, the Company should provide the information agreed to in the Settlement Agreements to PSC Docket Nos. 08-296F and 09-398F regarding ESNG capacity acquisitions and to continue to provide this information for potential upstream capacity additions as well. The Company should provide this information for both ESNG and upstream capacity on a confidential basis only. The Company should continue to review its design day forecasting methodology each year at the time the Supply Plan is developed to ensure its validity. The Company should also review and comment on any alternative design day forecasting methodology proposals submitted by either Staff or the DPA during the course of any review of the Company's Supply Plan.

Item 3. Chesapeake should continue to provide Staff and the DPA with periodic updates regarding any intervention by the Company in Federal Energy Regulatory Commission ("FERC") proceedings and actions taken by the Company on behalf of the Company's ratepayers, including, but not limited to, an enumeration of each issue and the position that the Company is actively pursuing. The Company should provide such periodic updates to Staff and the DPA subject to the Company's ability to provide this information on a confidential basis when appropriate.

Item 4. As agreed in prior dockets, the Company should continue with the following practices: (a) the Company will notify Staff and the DPA of any supplier

> refunds that may impact the GSR charges; (b) the Company should continue to include in future GSR applications an update on steps taken to mitigate the effects of changes in gas costs; (c) the Company should provide information on the total sales volumes, costs, and margins by month for Interruptible Gas Transportation sales as part of its GSR applications; and (f) the Company will calculate the impact on its proposed GSR rates had a thirty-year average degree days been used and provide such information as part of the discovery process, when and if requested.

Making these provisions permanent would eliminate the need to revisit and litigate the provisions every year.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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SALES SERVICE RATES (“GSR”) TO BE	**)**	
EFFECTIVE NOVEMBER 1, 2018 (FILED	**)**	
AUGUST 31, 2018)	**)**	

SCHEDULES ACCOMPANYING THE
DIRECT TESTIMONY OF

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CHESAPEAKE UTILITIES CORPORATION
Aveage Cost of ESNG Firm Transporation Capacity
(Dth)

NON-EXPANSION CAPACITY

Receipt Zone	MDQ	Rate	Annual Cost
Zone 1	35,150	$1.5878	$669,734
Zone 2	66,574	$4.6294	$3,698,400
Delivery Zone			
Zone 1	16,406	$6.6400	$1,307,230
Zone 2	50,168	$20.5435	$12,367,639
Subtotal	72,029	$20.8747	$18,043,003
2017 EXPANSION CAPACITY			
	16,500	$26.0445	$5,156,811
TOTAL CAPACITY	88,529	$21.8382	$23,199,814
INCREASE			**4.6%**

Schedule JDM-2

CHESAPEAKE UTILITIES CORPORATION
Adjustment to Capacity Release and Balancing Charges

CAPACITY RELEASE

Current Rates	Rate	MDQ	Amount
Zone 1	$0.3705	1,620	$219,077
Zone 2	$0.8276	18,126	$5,475,393
Subtotal			$5,694,470

Current Rates	Rate	MDQ	Amount
Zone 1	$0.3876	1,620	$229,189
Zone 2	$0.8658	18,126	$5,728,130
Subtotal			$5,957,318
Capacity Release Adjustment			$262,848

BALANCING CHARGES

Current Rates	Rate	Annual Volume	Amount
General Service	$1.3322	14,910	$19,863
Medium Volume	$1.5843	68,301	$108,209
Large Volume	$1.0685	1,344,549	$1,436,651
High Load Factor	$0.1026	2,879,181	$295,404
Interruptible	$0.0096	93,700	$900
Subtotal			$1,861,026

Proposed Rates	Rate	Annual Volume	Amount
General Service	$1.3784	14,910	$20,551
Medium Volume	$1.6305	68,301	$111,362
Large Volume	$1.1147	1,344,549	$1,498,713
High Load Factor	$0.1488	2,879,181	$428,303
Interruptible	$0.0558	93,700	$5,225
Subtotal			$2,064,154
Balancing Charge Adjustment			$203,127
Total Adjustment			$465,976